



SPACE FLORIDA
(A COMPONENT UNIT OF
THE STATE OF FLORIDA)

FINANCIAL STATEMENTS
AS OF JUNE 30, 2008 AND 2007, FOR THE YEAR
ENDED JUNE 30, 2008 AND FOR THE PERIOD
FROM INCEPTION (SEPTEMBER 1, 2006)
TO JUNE 30, 2007

SPACE FLORIDA

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June 30, 2008 and 2007

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Hoyman Dobson

Independent Auditor's Report

The Board of Directors
Space Florida
Cape Canaveral, Florida

We have audited the accompanying basic financial statements of Space Florida as of June 30, 2008 and 2007, for the year ended June 30, 2008 and for the period from inception (September 1, 2006) to June 30, 2007, as listed in the table of contents. These financial statements are the responsibility of Space Florida's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Space Florida as of June 30, 2008 and 2007 and the changes in its financial position and its cash flows thereof for the year ended June 30, 2008 and for the period from inception (September 1, 2006) to June 30, 2007, respectively, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 20, 2008, on our consideration of Space Florida's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and important for assessing the results of our audits.

The management's discussion and analysis on pages 5 through 9 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Certified Public Accountants

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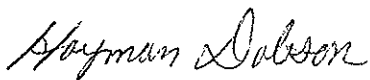
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The Board of Directors
Space Florida
Page Two

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise Space Florida's basic financial statements. The schedule of travel, entertainment and incidental expenses on page 27 is presented for purposes of additional analysis and is not a required part of the basic financial statements. This schedule has not been subjected to the auditing procedures applied in the audits of the basic financial statements and, accordingly, we express no opinion on it.

The accompanying schedule of expenditures of state financial assistance on page 35 is presented for purposes of additional analysis as required by Chapter 10.550, Rules of the Auditor General, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated, in all material respects in relation to the basic financial statements taken as a whole.



Hoyman Dobson
Melbourne, FL
October 20, 2008

Management's Discussion and Analysis

As management of Space Florida, we offer readers of Space Florida's financial statements this narrative overview and analysis of the financial activities of Space Florida for the year ended June 30, 2008 and for the period from inception (September 1, 2006) to June 30, 2007.

Space Florida serves as the State's principal government space agency, responsible for space-related infrastructure development, industry recruitment, and education/research in partnership with federal agencies and private industry; for providing leadership for development of space transportation infrastructure; and for implementation of space commercialization and development programs.

Space Florida utilizes funds to operate programs that retain, attract, and expand new business to Florida, and to promote Florida as the world's premier space business destination. Space Florida is responsible for accelerating the growth of space-related economic development and supports Florida's economic goals through targeted space business retention, expansion, and diversification efforts in addition to providing innovative educational, research and development and workforce development programs and space related infrastructure development projects.

Financial Highlights

- The assets of Space Florida exceeded its liabilities for the year ended June 30, 2008 and for the period from inception (September 1, 2006) to June 30, 2007 by \$66,366,281 and \$44,931,573 (net assets), respectively. Of this amount, \$5,840,811 and \$8,243,507 (unrestricted net assets), respectively, may be used to meet Space Florida's ongoing obligations to citizens and creditors.
- Space Florida's total net assets increased by \$21,434,708 for the year ended June 30, 2008 and \$44,931,573 for the period from inception (September 1, 2006) to June 30, 2007. For the year ended June 30, 2008 the increase is primarily attributable to state appropriations received for a capital improvement project. For the period from inception (September 1, 2006) to June 30, 2007 92 percent of this increase is attributable to the initial transfer of net assets at inception of \$41,252,925.
- For the year ended June 30, 2008 and for the period from inception (September 1, 2006) to June 30, 2007, unrestricted net assets were 42 percent and 118 percent, respectively, of total operating expenditures.
- Effective September 1, 2006, Pursuant to Chapter 2006-60, Laws of Florida, a law enacted by the Florida Legislature during its 2006 Regular Session, Space Florida was created as an independent special district and subdivision of the State.
- Effective September 1, 2006, the remaining assets and liabilities of the Florida Space Authority, the Florida Aerospace Finance Corporation and the Florida Space Research Institute were transferred to Space Florida. The total net assets transferred were \$41,252,925.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to Space Florida's basic financial statements. Space Florida's basic financial statements are comprised of two components: financial statements and notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

The basic financial statements report information using the full accrual accounting methods as utilized by similar business activities in the public sector. The financial statements include a statement of net assets, a statement of revenues, expenses, and changes in net assets, and a statement of cash flows.

The statement of net assets presents information on all of Space Florida's assets and liabilities, with the difference between the two reported as net assets. Over time, changes in net assets may serve as an indicator of the financial status of Space Florida.

The statement of revenues, expenses, and changes in fund net assets, presents information showing how Space Florida's net assets changed for the year ended June 30, 2008 and for the period from inception (September 1, 2006) to June 30, 2007. All changes in net assets are reported as soon as the underlying event giving rise to the

change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

The statement of cash flows presents changes in cash and cash equivalents from operational, financing, and investing activities. This statement presents cash receipt and disbursement information without consideration of the earnings event, when an obligation arises, or depreciation of capital assets.

The basic financial statements can be found on pages 12-16 of this report.

The notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements and thus are an integral part of these financial statements. The notes to the financial statements can be found on page 17-24 of this report.

In addition to the basic financial statements and accompanying notes, this report also presents other supplementary information. This supplementary information can be found on pages 27 and 35 of this report.

Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of an entity's financial status. Assets exceeded liabilities as of June 30, 2008 by \$66,366,281 and as of June 30, 2007 by \$44,931,573.

The following table reflects the condensed statement of net assets.

Space Florida Net Assets

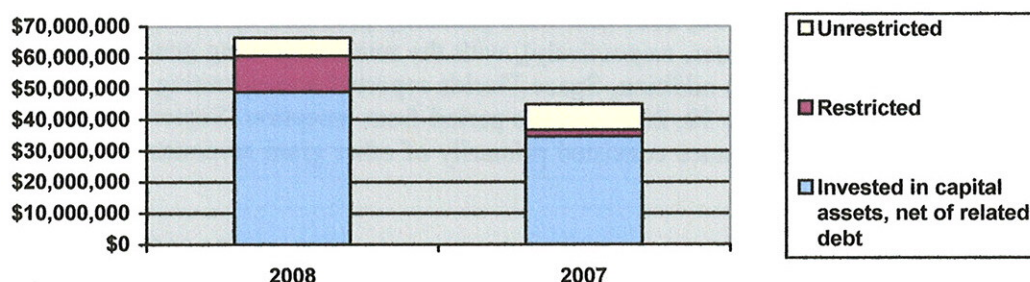
	2008	2007
Cash	\$ 1,983,959	\$ 8,364,946
Receivables	17,521,974	1,872,489
Other current assets	110,024	154,585
Capital assets	48,939,545	34,683,909
Other assets	1,070,098	1,085,092
Total assets	69,625,600	46,161,021
Liabilities	3,259,319	1,229,448
Total liabilities	3,259,319	1,229,448
Net assets:		
Invested in capital assets, net of related debt	48,939,545	34,683,909
Restricted	11,585,925	2,004,157
Unrestricted	5,840,811	8,243,507
Total net assets	\$ 66,366,281	\$ 44,931,573

The largest portion of Space Florida net assets as of June 30, 2008 (74 percent) and as of June 30, 2007 (77 percent) reflects its investment in capital assets (e.g., buildings, equipment, and construction in progress), less any related debt used to acquire those assets that is still outstanding. Although Space Florida's investment in its capital assets is reported net of related debt above, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of Space Florida net assets as of June 30, 2008 (17 percent) and as of June 30, 2007 (4 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets may be used to meet Space Florida's ongoing obligations.

As of June 30, 2008 and June 30, 2007, Space Florida was able to report positive balances in all three categories of net assets.

Net Assets



The following table shows condensed revenue and expense data:

Space Florida Changes in Net Assets

	2008	2007
Operating revenues:		
Fees and charges for services	\$ 2,841,784	\$ 1,879,659
State appropriated funding	6,999,986	6,400,559
Other grant Revenue	1,838,152	-
Total operating revenue	<u>11,679,922</u>	<u>8,280,218</u>
Non-operating revenues:		
Grant revenue	23,525,498	2,224,859
Other	180,556	939,601
Total non-operating revenues	23,706,054	3,164,460
Total revenues	<u>35,385,976</u>	<u>11,444,678</u>
Operating expenses:		
Business development	3,174,699	654,127
Educational research development and workforce activities	1,523,581	520,000
Operations	6,418,905	3,796,642
General, administrative and depreciation	2,834,083	2,027,518
Total operating expenses	<u>13,951,268</u>	<u>6,998,287</u>
Non-operating expenses		
Total non-operating expenses	-	767,743
Total non-operating expenses	-	767,743
Total expenses	<u>13,951,268</u>	<u>7,766,030</u>
Change in net assets before transfer of net assets at inception	21,434,708	3,678,648
Net assets transferred in at inception	-	41,252,925
Change in net assets	21,434,708	44,931,573
Net assets – beginning	4,931,573	-
Net assets – ending	<u>\$ 66,366,281</u>	<u>\$ 44,931,573</u>

Changes in Net Assets. Space Florida grew its net assets balance to \$66,366,281 for the year ended June 30, 2008 and \$44,931,573 for the period from inception (September 1, 2006) to June 30, 2007. For the year ended June 30, 2008 the increase in net assets consisted of a \$2,271,346 net loss from operations and \$23,706,054 in total non-operating revenues that include \$23,525,498 in other grant revenue. For the period from inception (September 1, 2006) to June 30, 2007 there was an initial transfer of net assets at inception of \$41,252,925. The internally generated amount for the same period was a net of \$3,678,648 consisting of \$1,281,931 net income from operations and a \$2,396,717 net income from non-operating revenues and expenses, including \$2,224,859 of other grant revenues.

Operating revenues totaled \$11,679,922 for the year ended June 30, 2008 and \$8,280,218 for the period from inception (September 1, 2006) to June 30, 2007 and were primarily provided by State appropriated funding (60 and 77 percent of total operating revenues, respectively), with the remaining being generated from fees, charges for service and other grant revenues. In addition, Space Florida reported non-operating revenues of \$23,706,054 and \$3,164,460 for the year ended June 30, 2008 and the period from inception (September 1, 2006) to June 30, 2007, respectively. Non-operating revenues consisted primarily of other grant revenues received for a particular capital improvement project.

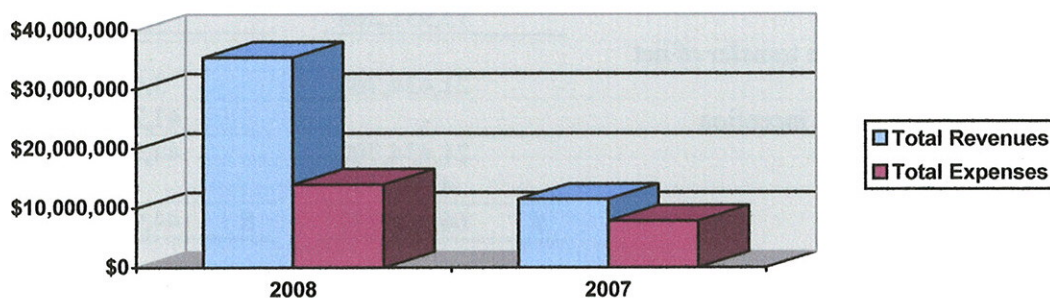
Operating expenses totaled \$13,951,268 for the year ended June 30, 2008 and \$6,998,287 for the period from inception (September 1, 2006) to June 30, 2007 with 46 percent and 54 percent, respectively, expended on operations consisting of support for the execution of Space Florida's responsibilities as a state-created entity, including facilities management and policy-related responsibilities. Related to ownership and management of the operation and its facilities, depreciation totaled \$1,739,800 for the year ended June 30, 2008 and \$1,482,662 for the period from inception (September 1, 2006) to June 30, 2007.

Space Florida's strategic goal is to operate as a high performance public sector organization. In addition, an important element of Space Florida's mission is to promote federal and state policies that increase space enterprise within the state.

As directed by statute, Space Florida is also responsible for fostering the growth and development of a sustainable and world-leading aerospace industry in the state and thus is responsible for accelerating the growth and diversification of aerospace-related economic development throughout the state. Space Florida is partnering with other state entities such as Enterprise Florida to accomplish these directives. During the period of June 30, 2008 and for the period from inception (September 1, 2006) to June 30, 2007, Space Florida expended 23 percent and 9 percent, respectively, of its operating expenditures to create and direct activities and programs that retain, attract and help expand aerospace businesses in Florida.

Lastly, 11 percent and 7 percent were expended on innovative educational, research and development, and workforce development projects for the year ended June 30, 2008 and for the period from inception (September 1, 2006) to June 30, 2007, respectively. Working with partners such as the Florida Department of Education, Space Florida was able to launch innovative education program targeted towards the improvement of science, technology, engineering and math in K-20 students. In addition, Space Florida has provided discerning funding of aerospace research and development activities and has played a key role in efforts with aerospace workforce development including transition from the Shuttle program to the Constellation Program.

Total Revenues and Expenses



Capital Asset and Debt Administration

Capital assets Space Florida's investment in capital assets as of June 30, 2008 amounted to \$48,939,545 and as of June 30, 2007 amounted to \$34,683,909 (net of accumulated depreciation). This investment in capital assets includes buildings, improvements and equipment.

Space Florida Capital Assets (net of depreciation)

	2008	2007
SRMU storage facility	\$ 7,736,830	\$ 8,162,711
RLV hangar and office space	2,264,683	2,571,114
Space Life Sciences Lab	23,058,684	23,406,170
Furniture, equipment and vehicles	335,214	285,956
Construction in progress	15,544,134	257,958
Total	<u>\$ 48,939,545</u>	<u>\$ 34,683,909</u>

Additional information on Space Florida capital assets can be found in Note 5 on pages 20 to 21 of this report.

Requests for Information

This financial report is designed to provide a general overview of Space Florida's finances for all those with an interest in Space Florida's financial operations. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Space Florida, SPFL Building M6-306, Room 9030, Kennedy Space Center, Florida, 32899.

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BASIC FINANCIAL STATEMENTS

SPACE FLORIDA

Statements of Net Assets

June 30, 2008 and 2007

ASSETS	2008	2007
Current assets		
Cash:		
Unrestricted	\$ 1,879,536	\$ 5,646,696
Restricted	104,423	2,718,250
Accounts receivable	133,040	241,239
Accrued interest receivable	-	31,106
Due from governments:		
Unrestricted	3,500,000	1,600,144
Restricted	13,888,934	-
Other current assets	110,024	154,585
Total current assets	19,615,957	10,392,020
Noncurrent assets		
Capital assets (net of accumulated depreciation):		
SRMU storage facility	7,736,830	8,162,711
Reusable Launch Vehicle (RLV) hangar and office space	2,264,683	2,571,114
Space Life Sciences Lab	23,058,684	23,406,170
Furniture, equipment and vehicles	335,214	285,956
Construction in progress	15,544,134	257,958
Other noncurrent assets	1,070,098	1,085,092
Total noncurrent assets	50,009,643	35,769,001
Total assets	69,625,600	46,161,021

SPACE FLORIDA

Statements of Net Assets (continued)

June 30, 2008 and 2007

	2008	2007
LIABILITIES		
Current liabilities		
Accounts payable	613,123	320,207
Accrued expenses	10,515	7,232
Salaries payable	48,028	20,956
Deferred revenue	115,501	115,501
Accrued retirement payable	19,709	26,076
Compensated absences, current portion	8,891	25,383
Payable from restricted assets:		
Accounts payable	2,407,432	714,093
Total current liabilities	3,223,199	1,229,448
Noncurrent liabilities		
Compensated absences, long-term portion	36,120	-
Total noncurrent liabilities	36,120	-
Total liabilities	3,259,319	1,229,448
NET ASSETS		
Invested in capital assets, net of related debt	48,939,545	34,683,909
Restricted for:		
Special purpose	11,585,925	2,004,157
Unrestricted	5,840,811	8,243,507
Total net assets	\$ 66,366,281	\$ 44,931,573

SPACE FLORIDA

Statements of Revenues, Expenses and Changes in Net Assets

For the year ended June 30, 2008 and for the period from inception (September 1, 2006) to June 30, 2007

	2008	2007
Operating revenues		
Fees and charges for services	\$ 2,841,784	\$ 1,879,659
State appropriated funding	6,999,986	6,400,559
Other grant revenue	1,838,152	-
Total operating revenues	11,679,922	8,280,218
Operating expenses		
Business development activities	3,174,699	654,127
Educational research development and workforce activities	1,523,581	520,000
Operations	6,418,905	3,796,642
General and administrative	1,094,283	544,856
Depreciation	1,739,800	1,482,662
Total operating expenses	13,951,268	6,998,287
Income (loss) from operations	(2,271,346)	1,281,931
Non-operating revenues (expenses)		
Interest income	180,556	163,117
Other grant revenue	23,525,498	2,224,859
State permitted retention of unused grant funds	-	776,484
Loss on disposal of capital assets	-	(130,965)
Impairment loss (Note 5)	-	(636,778)
Total non-operating revenues (expenses)	23,706,054	2,396,717
Change in net assets before transfer of net assets at inception	21,434,708	3,678,648
Net assets transferred in at inception (Note 1)	-	41,252,925
Change in net assets	21,434,708	44,931,573
Net assets, beginning of year	44,931,573	-
Net assets, end of year	\$ 66,366,281	\$ 44,931,573

SPACE FLORIDA

Statements of Cash Flows

For the year ended June 30, 2008 and for the period from inception (September 1, 2006) to June 30, 2007

	2008	2007
Cash flows from operating activities:		
Cash received from customers and users	\$ 2,949,983	\$ 1,593,106
Cash paid to suppliers for goods and services	(10,058,798)	(4,129,716)
Cash payments to employees for services	(1,756,583)	(715,350)
Operating grant receipts	6,938,282	4,802,853
Net cash provided by (used in) operating activities	(1,927,116)	1,550,893
Cash flows from noncapital financing activities:		
Cash transferred in at inception	-	4,582,270
Net cash provided by noncapital and related financing activities	-	4,582,270
Cash flows from capital and related financing activities:		
Capital related grant receipts	9,636,564	2,224,859
Purchase and construction of capital assets	(14,302,097)	(156,193)
Net cash provided by (used in) capital and related financing activities	(4,665,533)	2,068,666
Cash flows from investing activities:		
Interest received	211,662	163,117
Net cash provided by investing activities	211,662	163,117
Net increase (decrease) in cash	(6,380,987)	8,364,946
Cash, beginning of year	8,364,946	-
Cash, end of year	\$ 1,983,959	\$ 8,364,946

Cash for the purposes of this statement consists of the following at June 30, 2008 and 2007:

Cash	\$ 1,879,536	\$ 5,646,696
Restricted cash	104,423	2,718,250
Total cash	<u>\$ 1,983,959</u>	<u>\$ 8,364,946</u>

SPACE FLORIDA

Statements of Cash Flows (continued)

For the year ended June 30, 2008 and for the period from inception (September 1, 2006) to June 30, 2007

	2008	2007
Reconciliation of income (loss) from operations to net cash provided by (used in) operating activities:		
Income (loss) from operations	<u>\$ (2,271,346)</u>	<u>\$ 1,281,931</u>
Adjustment to reconcile income (loss) from operations to net cash provided by (used in) operating activities		
Depreciation expense	1,739,800	1,482,662
Educational expense related to rocket launches	14,994	-
(Increase) decrease in assets:		
Accounts receivable	108,199	(132,961)
Accrued interest receivable	-	(31,106)
Due from other governments	(1,899,856)	(1,597,706)
Other current assets	44,561	67,978
Increase (decrease) in liabilities:		
Accounts payable	292,916	149,063
Accrued expenses	3,283	(9,479)
Accrued compensated absences	19,628	25,383
Salaries payable	27,072	19,737
Deferred revenue	-	(122,486)
Accrued retirement payable	(6,367)	26,076
Due to other governments	-	(57,422)
Accounts payable from restricted assets	-	449,223
Total adjustments	<u>344,230</u>	<u>268,962</u>
Net cash provided by (used in) operating activities	<u><u>\$ (1,927,116)</u></u>	<u><u>\$ 1,550,893</u></u>
Supplemental schedule of noncash activities:		
Noncash assets and liabilities transferred to Space Florida at inception:		
Receivables	\$ -	\$ 108,278
Due from other governments	-	2,438
Prepaid expenses	-	222,563
Capital assets	-	36,520,163
Other noncurrent assets	-	1,085,092
Accounts payable	-	(171,144)
Accrued expenses	-	(16,711)
Salaries payable	-	(1,219)
Deferred revenue	-	(237,987)
Unused grant funds	-	(833,906)
Accounts payable from restricted assets	-	(6,912)
Total	<u>\$ -</u>	<u>\$ 36,670,655</u>
Noncash loss on disposal of assets	<u>\$ -</u>	<u>\$ (130,965)</u>
Noncash impairment loss	<u>\$ -</u>	<u>\$ (636,778)</u>
Noncash state permitted retention of unused grant funds	<u>\$ -</u>	<u>\$ 776,484</u>

The accompanying notes are an integral part of these financial statements.

SPACE FLORIDA

Notes to Financial Statements

June 30, 2008 and 2007

NOTE 1 – TRANSFER IN OF NET ASSETS AT INCEPTION

Effective September 1, 2006, pursuant to Chapter 2006-60, Laws of Florida, a law enacted by the Florida Legislature created Space Florida, an independent special district, a body politic and corporate, and subdivision of the State of Florida, to be the single point of contact for aerospace-related activities within the State. The same law dissolved the Florida Space Authority, the Florida Aerospace Finance Corporation, and the Florida Space Research Institute. Based on the decision to dissolve, or effectively liquidate, the three entities, the carrying amount of assets and liabilities for those entities were adjusted from their historical basis to amounts equal to the fair value expected from their realization or settlement.

Effective September 1, 2006, the remaining assets and liabilities of the Florida Space Authority, the Florida Aerospace Finance Corporation and the Florida Space Research Institute were transferred to Space Florida. The total net assets transferred to Space Florida at September 1, 2006 were \$41,252,925.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

REPORTING ENTITY - Space Florida is an independent special district, a body politic and corporate, and subdivision of the State of Florida, which was created pursuant to the Space Florida Act, Sections 331.301-331.369, Florida Statutes, as amended. Space Florida's purpose is to foster the growth and development of a sustainable and world-leading aerospace industry in the State of Florida. Space Florida accomplishes its purpose by promoting aerospace business development, facilitating business financing, spaceport operations, research and development, workforce development, and innovative education programs. Space Florida is not considered an "agency" of the State for budgeting, as defined in Florida Statutes 216.011 and 287.012.

The governing body of Space Florida consists of a Board of Directors with twelve voting members appointed by the Governor, five statutorily designated voting members and two ex-officio, nonvoting members. One of the ex-officio members is appointed by the President of the Senate and must be a member of the Senate, and the other ex-officio member is appointed by the Speaker of the House of Representatives and must be a member of the House of Representatives.

The Board of Directors accomplishes its oversight of Space Florida through its appointment of a President who implements the policies and directives of the Board of Directors. The President is responsible for the management of the operations of Space Florida.

Space Florida has the authority to purchase or construct facilities, to set rates, fees and charges for the use of facilities and to undertake joint financing with municipalities or private sector entities for projects. Space Florida also has the power to issue bonds and other instruments of indebtedness. The full faith and credit of the State of Florida does not secure any bonds issued by Space Florida.

SPACE FLORIDA

Notes to Financial Statements

June 30, 2008 and 2007

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION - Space Florida's financial statements are reported using the economic resources measurement focus, which is concerned with the inflow and outflow of resources that effect an entity. The Statement of Net Assets reflects those resources available to meet current obligations and to be used in the delivery of goods and services in subsequent periods. The Statement of Revenues, Expenses and Changes in Net Assets summarize those resources received and those consumed during the current period. The fund distinguishes between operating and non-operating revenues and expenses. Operating revenues generally result from leases, administrative fees, and operating grants. Operating expenses include the costs for space business development activities, educational research development and workforce activities, operations, administrative expenses and depreciation. All revenues and expenses not meeting the definition of operating are reported as non-operating revenues and expenses.

Space Florida is applying all applicable GASB pronouncements and only FASB Statements and Interpretation, Accounting Principles Board Opinions and Accounting Research Bulletins issued on or before November 30, 1989, unless they conflict with or contradict GASB pronouncements.

As stated previously, Space Florida accounts for all of its activities within one enterprise fund.

USE OF ESTIMATES – The process of preparing financial statements in conformity with U.S. generally accepted accounting principles requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Upon settlement, actual results may differ from those estimates.

CASH – Consists of cash on hand and demand deposits that are restricted and unrestricted.

OTHER CURRENT ASSETS – Consist of deposits and prepaid expenses.

RESTRICTED ASSETS – Consist primarily of cash received and unexpended in connection with a specific State-funded project.

OTHER NONCURRENT ASSETS – Consist of donated Super Loki rockets stated at the lower of cost or market.

CAPITAL ASSETS – Are defined as assets with an initial cost of more than \$1,000 and an estimated useful life in excess of one year. Capital assets are recorded at cost when purchased or at fair market value when donated. Additions, improvements and expenditures for repairs and maintenance that extend the lives of assets are capitalized. Other expenditures for repairs and maintenance are charged to expense as incurred. The carrying amount and accumulated depreciation of assets that are sold or retired are removed from the accounts in the year of disposal and any resulting gain or loss is included in results of operations.

Depreciation is provided using the straight-line method over the useful lives of the various classes of depreciable assets. The estimated useful lives of the property and equipment range from 1 to 27 years.

ACCRUED COMPENSATED ABSENCES - Space Florida's reporting of accrued compensated absences has been recorded in accordance with GASB Statement No. 16. A liability is accrued for an employee's right to receive compensation for future absences when certain conditions are met.

SPACE FLORIDA

Notes to Financial Statements

June 30, 2008 and 2007

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

DEFERRED REVENUES - Include amounts collected before the revenue recognition criteria are met. The deferred items consist of refundable prepaid launch fees.

NET ASSETS - Net assets are restricted when constraints placed on them are either externally imposed or are imposed by constitutional provisions or enabling legislation. Internally imposed designations of resources are not presented as restricted net assets. At June 30, 2008 and 2007, restricted net assets consist primarily of cash received and unexpended in connection with a specific State-funded project. When both restricted and unrestricted resources are available for use, generally it is Space Florida's policy to use restricted resources first, then unrestricted resources as needed.

NOTE 3 - CASH

At June 30, 2008 and 2007, the carrying amount of Space Florida's deposits was \$1,983,959 and \$8,364,946, respectively, and the bank balance was \$2,294,072 and \$8,595,341, respectively. These deposits consist of interest and non-interest bearing demand accounts that were entirely insured by federal depository insurance or by collateral held by Space Florida's agent, pursuant to the Florida Security for Public Deposits Act (the Act). The Act requires that Space Florida maintain deposits only in "qualified public depositories". All qualified public depositories must deposit with the State Treasurer eligible collateral in such amounts as required by the Act. Should a default or insolvency occur, the State Treasurer would implement procedures for payment of losses according to the validated claims of Space Florida. Therefore, Space Florida's deposits are considered to be fully insured.

Florida Statute 331.309 authorizes Space Florida to select as a depository any qualified public depository as defined in Florida Statute 280.02. Space Florida may also deposit funds with the State Treasury.

Cash at June 30, 2008 and 2007, consists of the following:

	<u>2008</u>	<u>2007</u>
Demand deposits	<u>\$ 1,983,959</u>	<u>\$ 8,364,946</u>
Classified as:		
Cash	\$ 1,879,536	\$ 5,646,696
Restricted cash	104,423	2,718,250
	<u>\$ 1,983,959</u>	<u>\$ 8,364,946</u>

SPACE FLORIDA

Notes to Financial Statements

June 30, 2008 and 2007

NOTE 4 – DUE FROM GOVERNMENTS

Due from governments is comprised of \$3,500,000 and \$1,600,144 of State appropriations for operations at June 30, 2008 and 2007, respectively. In addition, at June 30, 2008 Space Florida recorded a \$13,888,934 balance of additional State appropriations due from other governments that is restricted for a particular capital project.

NOTE 5 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2008 was as follows:

	2008			
	Balance June 30, 2007	Increases	Decreases	Balance June 30, 2008
Capital assets, not being depreciated:				
Construction in progress	\$ 257,958	\$ 15,286,176	\$ -	\$ 15,544,134
Total capital assets not being depreciated	<u>257,958</u>	<u>15,286,176</u>	<u>-</u>	<u>15,544,134</u>
Capital assets, being depreciated:				
SRMU storage facility	8,517,611	-	-	8,517,611
RLV hangar and office space	2,833,472	9,000	-	2,842,472
Space Life Sciences Lab	24,151,656	552,749	-	24,704,405
Furniture, equipment and vehicles	345,736	147,511	-	493,247
Total capital assets being depreciated	<u>35,848,475</u>	<u>709,260</u>	<u>-</u>	<u>36,557,735</u>
Less accumulated depreciation for:				
SRMU storage facility	(354,900)	(425,881)	-	(780,781)
RLV hangar and office space	(262,358)	(315,431)	-	(577,789)
Space Life Sciences Lab	(745,486)	(900,235)	-	(1,645,721)
Furniture, equipment and vehicles	(59,780)	(98,253)	-	(158,033)
Total accumulated depreciation	<u>(1,422,524)</u>	<u>(1,739,800)</u>	<u>-</u>	<u>(3,162,324)</u>
Total capital assets, being depreciated, net	<u>34,425,951</u>	<u>(1,030,540)</u>	<u>-</u>	<u>33,395,411</u>
Capital assets, net	<u>\$ 34,683,909</u>	<u>\$ 14,255,636</u>	<u>\$ -</u>	<u>\$ 48,939,545</u>

SPACE FLORIDA

Notes to Financial Statements

June 30, 2008 and 2007

NOTE 5 – CAPITAL ASSETS (CONTINUED)

Capital asset activity for the period from inception (September 1, 2006) to June 30, 2007 was as follows:

	2007		
	Balance September 1, 2006	Increases	Decreases
			Balance June 30, 2007
Capital assets, not being depreciated:			
Construction in progress	\$ -	\$ 257,958	\$ -
Total capital assets not being Depreciated	-	257,958	-
Capital assets, being depreciated:			
SRMU storage facility	-	8,517,611	-
Space Operations and Control Center	-	677,080	(677,080)
RLV hangar and office space	-	2,833,472	-
Space Life Sciences Lab	-	24,151,656	-
Furniture, equipment and vehicles	-	496,537	(150,801)
Total capital assets being depreciated	-	36,676,356	(827,881)
Less accumulated depreciation for:			
SRMU storage facility	-	(354,900)	-
Space Operations and Control Center	-	(40,302)	40,302
RLV hangar and office space	-	(262,358)	-
Space Life Sciences Lab	-	(745,486)	-
Furniture, equipment and vehicles	-	(79,616)	19,836
Total accumulated depreciation	-	(1,482,662)	60,138
Total capital assets, being depreciated, net	-	35,193,694	(767,743)
Capital assets, net	\$ -	\$ 35,451,652	\$ (767,743)

Impairment Loss

During the period from inception (September 1, 2006) to June 30, 2007, management determined that the Space Operations and Control Center equipment would no longer be utilized by Space Florida and impaired the equipment. In accordance with GASB No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, such an asset should be recorded at the lesser of its carrying value or fair market value. Given the unique nature of the asset and limited resale market of the asset, Space Florida determined the fair market value to be \$0. Accordingly, Space Florida reported an impairment loss of \$636,778 in the Statement of Revenues, Expenses and Changes in Net Assets.

SPACE FLORIDA

Notes to Financial Statements

June 30, 2008 and 2007

NOTE 6 - CHANGES IN LONG-TERM LIABILITIES

Long-term liability activity for the year ended June 30, 2008 and the period from inception (September 1, 2006) to June 30, 2007, was as follows:

	Balance July 1, 2007	Additions	Reductions	Balance June 30, 2008	Due Within One Year
Compensated absences	\$ 25,383	\$ 74,532	\$ (54,904)	\$ 45,011	\$ 8,891
Total	<u>\$ 25,383</u>	<u>\$ 74,532</u>	<u>\$ (54,904)</u>	<u>\$ 45,011</u>	<u>\$ 8,891</u>

	Balance September 1, 2006	Additions	Reductions	Balance June 30, 2007	Due Within One Year
Compensated absences	\$ -	\$ 25,383	\$ -	\$ 25,383	\$ 25,383
Total	<u>\$ -</u>	<u>\$ 25,383</u>	<u>\$ -</u>	<u>\$ 25,383</u>	<u>\$ 25,383</u>

NOTE 7 - CONDUIT DEBT

As defined by GASB Interpretation No. 2, conduit debt obligations are certain limited obligation debt instruments issued by a state or local governmental entity for the express purpose of providing capital financing for a specific third party that is not a part of the issuer's financial reporting entity. Although the conduit debt obligations bear the name of the governmental entity, the entity has no obligation to repay the conduit debt beyond the resources provided by a lease or loan to the third party. GASB has concluded that conduit debt does not create a liability for the governmental entity and, therefore, is not reflected on the entity's basic financial statements. Space Florida has participated in the issuance of conduit debt projects that are not reflected on the statement of net assets of its basic financial statements.

The conduit debt transactions discussed below are limited-obligation debts of Space Florida and are payable solely from the pledged revenues described in the respective debt agreements. Neither the faith nor credit, nor the taxing power of Space Florida, the State of Florida, nor any subdivision thereof is pledged to the payment of the debts.

During January 2000, the Florida Space Authority entered into an agreement to assist in the financing and modification of Launch Complex 41 for use of the Atlas V rocket. This project was completed during the year ended June 30, 2003. The original value of the Florida Space Authority assisted financing on this project was approximately \$294,117,000. With the dissolution of the Florida Space Authority on September 1, 2006, the conduit debt was assigned to Space Florida. As of June 30, 2008 and 2007, the outstanding balance on Space Florida assisted financing was approximately \$106,283,887 and \$117,889,000, respectively. The debt is being repaid from the rental revenue received on the Atlas V facility.

SPACE FLORIDA

Notes to Financial Statements

June 30, 2008 and 2007

NOTE 7 - CONDUIT DEBT (CONTINUED)

During July 2005, the Florida Space Authority entered into an agreement to assist in the financing related to the construction of a Shuttle Launch Experience facility to be located at the Kennedy Space Center. The project is not yet complete as of June 30, 2008. However, the total value of Space Florida assisted financing is not to exceed \$35,000,000. With the dissolution of the Florida Space Authority on September 1, 2006, the conduit debt was assigned to Space Florida. As of June 30, 2008 and 2007, the outstanding balance on Space Florida assisted financing was approximately \$29,823,843 and \$33,618,000, respectively. The debt will be repaid from a percentage of ticket sale revenues at the Kennedy Space Center Visitor Complex.

During March 2007, Space Florida entered into an agreement to assist in additional financing related to the construction of a Shuttle Launch Experience facility to be located at the Kennedy Space Center. The project is not yet complete as of June 30, 2008. However, the total value of Space Florida assisted additional financing is not to exceed \$5,000,000. As of June 30, 2008 and 2007, the outstanding balance on Space Florida assisted additional financing was approximately \$2,989,805 and \$2,635,000, respectively. The debt will be repaid from a percentage of ticket sale revenues at the Kennedy Space Center Visitor Complex.

NOTE 8 - SRMU STORAGE FACILITY

On May 15, 2007, Space Florida entered into an agreement to lease the Titan IV Solid Rocket Motor Upgrade (SRMU) storage facility constructed at Camp Blanding, Florida. The lease currently extends through September 30, 2008, and may be extended for up to nine additional one year periods. However, the tenant may terminate the lease with a 90-day written notice. During the year ended June 30, 2008 and for the period from inception (September 1, 2006) to June 30, 2007, Space Florida recorded lease revenue of \$409,264 and \$147,693, respectively.

The SRMU storage facility was constructed on land owned by the State of Florida Armory Board. The annual land use fee is approximately \$154,000 and is payable by Space Florida in monthly installments of \$12,834.

If the current tenant chooses not to renew the lease and no suitable lease agreement is secured with another tenant, management believes the service utility of the facility would be significantly reduced. Under such circumstances, and in accordance with GASB No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, Space Florida would be required to report an impairment loss, not to exceed the then carrying value of the facility, which is \$7,736,830 as of June 30, 2008. However, management believes the current tenant will continue to renew the lease. Accordingly, no impairment loss has been recorded as of June 30, 2008.

Space Florida also stores the majority of its inventory of Super Loki rockets (Note 2) at the Camp Blanding facility. Depending on how the facility is ultimately utilized, as described above, Space Florida may be forced to either destroy or donate its stock of Super Loki rockets. If such circumstances occurred, Space Florida would be required to record a loss of approximately \$1,064,000, the carrying value of the rockets stored at its Camp Blanding facility. As of June 30, 2008, management believes it will be able to continue to store the rockets at its Camp Blanding facility and have, therefore, not recorded a contingent loss.

SPACE FLORIDA

Notes to Financial Statements

June 30, 2008 and 2007

NOTE 9 – SPACE LIFE SCIENCES LAB

During 2004, the Florida Space Authority completed construction of the Space Life Sciences Lab (SLSL) and entered into an agreement to lease the facility. With the dissolution of the Florida Space Authority on September 1, 2006, the asset and lease was assigned to Space Florida. The net carrying value of the facility at June 30, 2008 was \$23,406,171. The lease term extends through September 30, 2009. During the year ended June 30, 2008 and the period from inception (September 1, 2006) to June 30, 2007, Space Florida recorded lease revenue of \$1,554,327 and \$1,263,080, respectively.

The SLSL lease agreement also provides that the tenant is responsible for the operation and maintenance of the facility. However, Space Florida makes monthly payments to the tenant to cover such expenses. During the year ended June 30, 2008 and the period from inception (September 1, 2006) to June 30, 2007, Space Florida recorded operations and maintenance expenses related to the SLSL facility of \$444,950 and \$421,027, respectively.

NOTE 10 - RETIREMENT PLAN

Effective September 1, 2006, Space Florida established a Simplified Employee Pension Plan (the Plan). The Plan eliminates the taxation required for the social security element of the Federal Insurance Contributions Act (FICA) for all participants and for Space Florida. Employees may not contribute to social security while participating in the Plan.

All employees of Space Florida are eligible to participate in the Plan immediately. Participants vest at 100% upon entering the Plan and retirement is set at age 65. The Plan is non-contributory for employees and, therefore, all contributions are the obligation of Space Florida. Contributions to the Plan for the year ended June 30, 2008 and the period from inception (September 1, 2006) to June 30, 2007 were \$235,930 and \$92,292, respectively, and represented 15% of total eligible employee gross compensation for each period.

NOTE 11 - COMMITMENTS AND CONTINGENCIES

Construction

Commitments for the repair, modification, improvements, material and new construction of property owned by Space Florida at September 30, 2008 was approximately \$2,100,000.

Economic Dependency

Space Florida received approximately 92% and 76% of its total support from State legislative appropriations during the year ended June 30, 2008 and the period from inception (September 1, 2006) to June 30, 2007, respectively.

State Appropriated Funds & Federal Contracts

Amounts received from State and Federal agencies are subject to audit and adjustment at the discretion of these entities. If expenditures are disallowed as a result of these audits, the claims for reimbursement to the agency would become a liability of Space Florida.

SUPPLEMENTARY INFORMATION

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SPACE FLORIDA

Schedule of Travel, Entertainment and Incidental Expenses

For the year ended June 30, 2008

Domestic:

Travel and incidental (1)	\$ 322,607
Entertainment	<u>46,984</u>
Total domestic	<u>369,591</u>

Foreign:

Travel and incidental (1)	4,302
Entertainment	<u>-</u>
Total foreign	<u>4,302</u>
Total	<u>\$ 373,893</u>

(1) Incidental expenses consist of telephone charges and gratuities

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Hoyman Dobson

**Independent Auditors' Report on Internal Control Over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards***

The Board of Directors
Space Florida

We have audited the financial statements of Space Florida as of and for the year ended June 30, 2008, and have issued our report thereon dated October 20, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Space Florida's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Space Florida's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Space Florida's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed, below, we identified a deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiency described in the accompanying schedule of findings and questioned costs [2008-01] to be a significant deficiency in internal control over financial reporting.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

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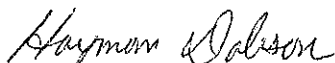
Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe the significant deficiency described above is not a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Space Florida's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Space Florida's response to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit Space Florida's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, Space Florida's Board of Directors, others within the entity, State awarding agencies, specific legislative or regulatory bodies and the State of Florida Office of the Auditor General and is not intended to be and should not be used by anyone other than these specified parties.



Hoyman Dobson
Melbourne, Florida
October 20, 2008



Hoyman Dobson

**Independent Auditors' Report on Compliance with Requirements Applicable
to Each Major State Project and on Internal Control over Compliance
in Accordance with Chapter 10.550, Rules of the Auditor General**

To the Board of Directors
Space Florida

Compliance

We have audited the compliance of Space Florida with the types of compliance requirements described in the Executive Office of the Governor's State Projects Compliance Supplement, that are applicable to each of its major state projects for the year ended June 30, 2008. Space Florida's major state projects are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major state projects is the responsibility of Space Florida's management. Our responsibility is to express an opinion on Space Florida's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Chapter 10.550, Rules of the Auditor General. Those standards, and Chapter 10.550, Rules of the Auditor General, require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major state project occurred. An audit includes examining, on a test basis, evidence about Space Florida's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Space Florida's compliance with those requirements.

In our opinion, Space Florida complied, in all material respects, with the requirements referred to above that are applicable to each of its major state projects for the year ended June 30, 2008.

Internal Control Over Compliance

The management of Space Florida is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to state projects. In planning and performing our audit, we considered Space Florida's internal control over compliance with requirements that could have a direct and material effect on a major state project to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Space Florida's internal control over compliance.

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A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a state project on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a state project such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a state project that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a state project will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, Space Florida's Board of Directors, others within the entity, State awarding agencies, specific legislative or regulatory bodies and the State of Florida Office of the Auditor General and is not intended to be and should not be used by anyone other than these specified parties.



Hoyman Dobson
Melbourne, Florida
October 20, 2008

SPACE FLORIDA

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2008

SUMMARY OF AUDITOR'S RESULTS

1. The auditors' report expresses an unqualified opinion on the financial statements of Space Florida.
2. Significant deficiencies relating to the audit of the financial statements are reported.
3. No instances of noncompliance material to the financial statements of Space Florida were disclosed during the audit.
4. No significant deficiencies relating to the audit of the major state award programs are reported.
5. The auditors' report expresses an unqualified opinion on state award programs.
6. We had no audit findings that would be required to be reported in accordance with Chapter 10.557, Rules of the Auditor General.
7. The programs tested as major projects include:

<u>CSFA Number(s)</u>	<u>Name of State Project</u>
31.004	Infrastructure Agreement
31.004	Funding and program Agreement

8. The threshold used for distinguishing between Type A and B programs was \$743,321 for state grants.
9. Space Florida qualified as a low-risk auditee.

FINDINGS – FINANCIAL STATEMENTS

2008-01 Policies and Procedures

Criteria: All internal processes and control procedures should be documented in a written policy.

Condition: Space Florida does not have written policies and procedures related to a) the review and write-off of accounts receivable, b) the approval and posting of non-standard journal entries, c) the review of capital assets for impairment, and d) specific guidance on the types of costs to be capitalized in the acquisition of construction of a capital asset. Space Florida's current processes identified above lack proper documentation and proof of managerial approval.

Effect: Without written policies in place, Space Florida is vulnerable to financial statement errors and misstatements. For example, several conversations were held with management to determine whether certain facility improvement costs should be capitalized as part of an overall capital project. Such costs included project design and engineering costs, freight charges, etc., and should be specifically addressed in Space Florida's capitalization policy.

SPACE FLORIDA

Schedule of Findings and Questioned Costs (Continued)

For the Year Ended June 30, 2008

FINDINGS – FINANCIAL STATEMENTS (CONTINUED)

Recommendation: We recommend Space Florida implement written policies and procedures related to accounts receivable write-offs, non-standard journal entry approval and posting, and a review for capital asset impairment. The policies and procedures should be published as part of Space Florida's travel and finance policy.

Management's Response: Management concurs the recommendation has some degree of merit. However, as a fairly new entity Management determines what internal control processes and procedures that are cost beneficial. In making such a judgment, Management evaluates the frequency and materiality of the area and existing compensating controls that would ensure that a more than remote likelihood of a noncompliance with a compliance requirement would be prevented or detected. In all four areas noted by the auditors, Management's position is that either the frequency is sufficiently low or the area is immaterial and the costs to comply are not justified up to this point in time. Management does agree with the recommendation going forward that as Space Florida expands in these areas to material levels written control processes and procedures will be developed to ensure to ensure that a more than remote likelihood of a noncompliance with a compliance requirement would be prevented or detected.

FINDINGS AND QUESTIONED COSTS – MAJOR STATE PROJECTS

None noted.

OTHER ISSUES

The status of audit findings for the period from inception (September 1, 2006) to June 30, 2007 is as follows:

	<u>Findings and Questioned Costs</u>	<u>Status</u>
2007-01	Infrastructure Agreement Quarterly Deliverables	Cleared

No Corrective Action Plan is required because there were no findings required to be reported under the Florida Single Audit Act.

SPACE FLORIDA

Schedule of Expenditures of State Financial Assistance

For the year ended June 30, 2008

<u>State Agency</u>	<u>CSFA Number</u>	<u>Contract/Grant Number</u>	<u>Expenditures</u>	<u>Transfer to Subrecipients</u>
Office of Tourism, Trade and Economic Development				
Direct Projects				
Infrastructure Agreement	31.004	OT-07-059	\$ 16,817,653	\$ -
Funding and Program Agreement	31.004	OT-07-008	3,005,298	-
Funding and Program Agreement	31.004	OT-08-008	4,954,412	-
Total expenditures of State financial assistance			<u>\$24,777,363</u>	<u>\$ -</u>

Note: This schedule is prepared on the accrual basis of accounting.

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Hoyman Dobson

Independent Auditors' Management Letter Comments

To the Board of Directors
Space Florida

We have audited the financial statements of Space Florida as of and for the fiscal year ended June 30, 2008, and have issued our report thereon dated October 20, 2008.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Chapter 10.550, Rules of the Auditor General. We have issued our Independent Auditors' Report on Compliance and Internal Control over Financial Reporting, Independent Auditors' Report on Compliance and Internal Control over Compliance Applicable to Each Major State Project, and Schedule of Findings and Questioned Costs. Disclosures in those reports, which are dated October 20, 2008, should be considered in conjunction with this management letter.

Additionally, our audit was conducted in accordance with the provisions of Chapter 10.550, Rules of the Auditor General, which govern the conduct of local governmental entity audits performed in the State of Florida and, unless otherwise required to be reported in the report on compliance and internal controls or schedule of findings and questioned costs, this letter is required to include the following information.

- ❖ Section 10.554(1)(i)1., Rules of the Auditor General, requires that we determine whether or not corrective actions have been taken to address significant findings and recommendations made in the preceding annual financial audit report. The recommendations made in the preceding annual financial report have been corrected.
- ❖ Section 10.554(1)(i)2., Rules of the Auditor General, requires our audit to include a review of the provisions of Section 218.415., Florida Statutes, regarding the investment of public funds. In connection with our audit, we determined that Space Florida complied with Section 218.415, Florida Statutes.
- ❖ Section 10.554(1)(i)3., Rules of the Auditor General, requires that we address in the management letter any recommendations to improve financial management, accounting procedures, and internal controls. In connection with our audit, we did not have any such recommendations, other than those reported in the schedule of findings and questioned costs [2008-01 and 2008-02].
- ❖ Section 10.554(1)(i)4., Rules of the Auditor General, requires that we address violations of provisions of contracts and grant agreements or abuse that have an affect on the financial statements that is less than material but more than inconsequential. In connection with our audit, we did not have any such findings.

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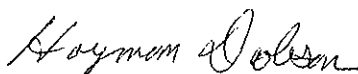
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- ❖ Section 10.554(1)(i)5., Rules of the Auditor General, requires, based on professional judgment, the reporting of the following matters that are inconsequential to the financial statements, considering both quantitative and qualitative factors: (1) violations of laws, rules, regulations, and contractual provisions or abuse that have occurred, or were likely to have occurred, and would have an immaterial effect on the financial statements; (2) improper expenditures or illegal acts that would have an immaterial effect on the financial statements; and (3) control deficiencies that are not significant deficiencies, including, but not limited to; (a) improper or inadequate accounting procedures (e. g., the omission of required disclosures from the financial statements); (b) failures to properly record financial transactions; and (c) other inaccuracies, shortages, defalcations, and instances of fraud discovered by, or that come to the attention of, the auditor. In connection with our audit, we did not have any such finding.
- ❖ Section 10.554(1)(i)6., Rules of the Auditor General, requires that the name or official title and legal authority for the primary government and each component unit of the reporting entity be disclosed in this management letter, unless disclosed in the notes to the financial statements. The legal authority of Space Florida is disclosed in the footnotes.
- ❖ Section 10.554(1)(i)7.a., Rules of the Auditor General, requires a statement be included as to whether or not the local government entity has met one or more of the conditions described in Section 218.503(1), Florida Statutes, and identification of the special condition(s) met. In connection with our audit we determined that Space Florida did not meet any of the conditions described in Section 218.503(1), Florida Statutes.
- ❖ Section 10.554(1)(i)7.b., Rules of the Auditor General, requires that we determine whether the annual financial report for Space Florida for the fiscal year ended June 30, 2008, filed with the Florida Department of Financial Services pursuant to Section 218.32(1)(a), Florida Statutes, is in agreement with the annual financial audit report for the fiscal year ended June 30, 2008. In connection with our audit, we determined that these two reports were in agreement.
- ❖ Sections 10.554(i)7.c. and 10.556(7), Rules of the Auditor General, require that we apply financial condition assessment procedures. In connection with our audit, we applied financial condition assessment procedures. It is management's responsibility to monitor the entity's financial condition, and our financial condition assessment was based in part on representations made by management and the review of financial information provided by same.

This management letter is intended solely for the information of Space Florida and management, state awarding agencies, specific legislative or regulatory bodies, and the State of Florida Office of the Auditor General, and is not intended to be and should not be used by anyone other than these specified parties.



Hoyman Dobson
Melbourne, Florida
October 20, 2008